

Message Text

CONFIDENTIAL

PAGE 01 PORT A 01409 01 OF 02 111640Z

46

ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 AGR-05 TAR-01 H-02 L-03 PRS-01 FEAE-00 INT-05

PA-01 /096 W

----- 002033

R 111516Z JUN 75

FM AMEMBASSY PORT AU PRINCE

TO SECSTATE WASHDC 9999

INFO AMEMBASSY SANTO DOMINGO

C O N F I D E N T I A L SECTION 1 OF 2 PORT AU PRINCE 1409

E. O. 11652: GDS

TAGS: ECON EAID HA

SUBJECT: HAITIAN ECONOMIC PROSPECT DETERIORATE

1. SUMMARY: HAITIAN ECONOMIC PROSPECTS FOR 1975, ALREADY DEPRESSED BECAUSE OF DECLINING PRODUCTION, INCREASING UNEMPLOYMENT, SEVERE BALANCE OF PAYMENTS DIFFICULTIES AND INFLATION, HAVE SUFFERED ANOTHER JOLT AS A RESULT OF UNFAVORABLE WEATHER. DROUGHT HAS LOWERED AGRICULTURAL PRODUCTION, BRINGING AT LEAST 300,000 PEOPLE TO THE EDGE OF STARVATION IN THE NORTHWEST, WHILE CAUSING REDUCED SUPPLIES OF FOOD AND SHARPLY HIGHER FOOD PRICES IN THE REST OF THE COUNTRY. ALTHOUGH DONATIONS OF FOOD MAY ALLEVIATE THE LOT OF THE POPULATION IN THE WORST STRICKEN AREAS, THE GOH WILL STILL BE FACED IN COMING MONTHS WITH URGENT NEEDS FOR ACTION PARTICULARLY TO INCREASE AGRICULTURAL PRODUCTION, BUT WITH VIRTUALLY NO RESOURCES TO UNDERTAKE SUCH ACTION. THE GOH WILL PROBABLY PERCEIVE ADDITIONAL FOREIGN AID AS THE ONLY WAY OUT, AND IT IS LIKELY TO APPEAL TO MULTILATERAL AGENCIES AND OTHER GOVERNMENTS (PARTICULARLY THE U.S.) FOR URGENT ASSISTANCE IN THE AGRICULTURAL SECTOR. SUCH REQUESTS ARE NOT LIKELY TO BE WELL FORMULATED ON ANY BASIS OTHER THAN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PORT A 01409 01 OF 02 111640Z

SELF-EVIDENT NEEDS. END SUMMARY.

2. THE GENERAL ECONOMIC OUTLOOK FOR HAITI HAS BEEN DETERIORATING FOR AT LEAST EIGHT MONTHS. THE THREE FACTORS ON WHICH THE SOMEWHAT PRECARIOUS HAITIAN PROSPERITY IN THE 1970-1974 PERIOD HAD BEEN BASED--TOURISM, LIGHT MANUFACTURING AND CONSTRUCTION--RAN INTO DIFFICULTIES IN LATE 1974. SOME OF THE SMALL TRANSFORMATION INDUSTRIES WITHDREW AS RECESSION IN THE UNITED STATES REDUCED DEMAND, WHILE OTHERS REDUCED OUTPUT. THE LARGEST SECTOR (TEXTILES) WAS FACED WITH A CUT-BACK IN GROWTH, AS THE U.S. (THE ONLY MARKET) REQUESTED NEGOTIATION OF A MULTIFIBER TEXTILE AGREEMENT. DESPITE NEGOTIATIONS OVER A TEN-MONTH PERIOD, AGREEMENT ON CONTROL OF TEXTILE EXPORTS HAS NOT YET BEEN REACHED. IN THE MEANTIME, THE UNCERTAINTY OVER THE AGREEMENT HAS CAUSED CONFUSION WITHIN THE INDUSTRY, AND THE U.S. GOVERNMENT HAS LIMITED IMPORTS OF CERTAIN CATEGORIES OF TEXTILES. IN THIS SECTOR, AS WELL AS IN OTHER SECTORS OF THE ASSEMBLY INDUSTRY, NEW INVESTMENTS HAVE PRACTICALLY COME TO A HALT, WITH NO UPTURN EXPECTED BEFORE 1976. AT THE SAME TIME, HAITIAN INCOME FROM TOURISM, WHICH HAD BEEN GROWING SHARPLY, BEGAN TO FALL OFF, AS TOURISTS REDUCED THEIR AVERAGE LENGTH OF STAY IN HAITI BY APPROXIMATELY FIFTY PERCENT. WITH THE SLOWDOWN IN TOURISM AND LIGHT INDUSTRY, CONSTRUCTION OF HOTELS, GUEST HOUSES AND INDUSTRIAL PLANTS BEGAN TO SLOW, AND CONSTRUCTION OF HOUSING TAPERED OFF AS WELL. THE SOLE HAITIAN CEMENT PLANT, WHOSE SHIPMENTS HAD GROWN AT THE RATE OF 10-15 PERCENT PER YEAR THROUGH 1974, ESTIMATED IN MAY THAT THERE WILL BE NO GROWTH AT ALL IN 1975. OTHER INDUSTRIES PRODUCING FOR THE LOCAL MARKET (TEXTILES, IN PARTICULAR) ALSO BEGAN TO CUT PRODUCTION EARLY IN 1975, BECAUSE OF SOARING INVENTORIES.

3. UNEMPLOYMENT, ALWAYS A SERIOUS PROBLEM IN THE PORT-AU-PRINCE AREA, THUS GREW RAPIDLY IN THE SPRING OF 1975. THERE IS NO UNEMPLOYMENT INSURANCE TO CUSHION THE LOSS OF JOBS. ACCORDINGLY, THE GOVERNMENT HAS TRIED TO PERSUADE THE SMALL INDUSTRIES TO SPREAD OUT AVAILABLE WORK, CUTTING OUT OVERTIME AND REDUCING THE WORK WEEK IN ORDER TO KEEP AS MANY PEOPLE AS POSSIBLE ON THE EMPLOYMENT ROLLS. EVEN THOSE WORKERS WHO RETAIN THEIR JOBS ARE CAUGHT BETWEEN DECLINING INCOMES AND INCREASED EXPENDITURES AS THE COST OF LIVING CONTINUES TO RISE PRECIPITOUSLY. BETWEEN JANUARY 1974. AND MARCH 1975, THE COST-OF-LIVING INDEX

CONFIDENTIAL

PAGE 03 PORT A 01409 01 OF 02 111640Z

(WHICH IS BASED ON PRODUCTS USED BY THE LOWER-MIDDLE AND WORKING CLASSES) ROSE FROM 193.8 TO 239.55, AN INCREASE OF 23.55 PERCENT IN FIFTEEN MONTHS.

4. MEANWHILE, HAITIAN FOREIGN EXCHANGE RESERVES HAVE CONTINUED TO DECLINE AS PRICES FOR HAITIAN EXPORTS (COFFEE, SISAL, ESSENTIAL OILS AND SUGAR) DROPPED MORE SHARPLY THAN THE PRICES OF HAITIAN IMPORTS (E.G., WHEAT, SOYBEAN OIL, PETROLEUM PRODUCTS). HAITI'S

BALANCE OF PAYMENTS DEFICIT FOR THE FISCAL YEAR ENDING OCTOBER 1974 TOTALED \$18 MILLION. SINCE THE IMF STAND-BY AND THE SPECIAL OIL FACILITY WERE INSUFFICIENT TO COVER THE GAP, HAITI'S CENTRAL BANK HAD TO RESORT TO SHORT-TERM LOANS FROM U.S. COMMERCIAL BANKS (AT 9.5 PERCENT). ALTHOUGH THE NORMAL SEASONAL IMPROVEMENT TOOK PLACE IN LATE 1974, AND HAITI RECEIVED EXTRA REVENUE FROM BAUXITE FROM REYNOLDS IN DECEMBER 1974 AND JANUARY 1975, NET RESERVES AGAIN BEGAN THEIR DECLINE IN JANUARY, AND ARE AGAIN NEGATIVE. WITH NO IMPROVEMENT EXPECTED FOR AT LEAST A YEAR IN EITHER QUANTITIES OF EXPORTS OR PRICES RECEIVED, WHILE LARGE PAYMENTS MUST BE MADE FOR EXTRAORDINARY IMPORTS OF FOOD SUPPLIES, AS WELL AS INVESTMENTS IN ROAD, AGRICULTURAL AND TELECOMMUNICATIONS EQUIPMENT, PROSPECTS ARE THAT THE 1975 DEFICIT WILL BE EVEN LARGER THAN THE 1974 DEFICIT. IT IS UNCERTAIN THAT THE IMF STAND-BY, THE OIL FACILITY, AND ASSISTANCE FROM A U.S. PL-480 TITLE I AGREEMENT SIGNED IN MARCH WILL BE SUFFICIENT TO BRIDGE THE GAP. ALTERNATIVE SOLUTIONS TO THE B/P CRUNCH (E.G., MANIPULATION OF THE EXCHANGE RATE OR A MORATORIUM ON FOREIGN DEBT OBLIGATIONS) BEAR NO PROSPECT OF SATISFYING ANYONE CONCERNED.

5. IN ORDER TO OBTAIN FUNDS FROM THE IMF TO MEET THE BALANCE OF PAYMENTS DEFICIT EXPECTED IN 1975, HAITI WILL HAVE TO ABIDE BY VERY STRICT CONDITIONS ON BOTH PRIVATE AND OFFICIAL LOANS. THE EXPECTED CREDIT CRUNCH WILL FURTHER DEPRESS THE PRIVATE SECTOR AND, AT THE SAME TIME, MAKE IT MORE DIFFICULT FOR THE GOH TO FIND FUNDS FOR ADDITIONAL ESSENTIAL GOVERNMENT INVESTMENT TO MEET SHORT-TERM ECONOMIC PROBLEMS.

6. ON TOP OF THIS ALREADY DEPRESSED ECONOMIC SITUATION, NEW PROBLEMS HAVE BEEN ADDED BY THE DROUGHT IN NORTHWEST HAITI. THE COMPLETE LOSS OF BOTH THE CORN AND SUBSISTENCE CROPS PLANTED DURING THE NOVEMBER/DECEMBER 1974 SEASON IN NORTHWEST HAITI HAS BROUGHT THE AREA TO THE EDGE OF DISASTER. ALTHOUGH IT APPEARS THAT THE

CONFIDENTIAL

PAGE 04 PORT A 01409 01 OF 02 111640Z

WORST

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 PORT A 01409 02 OF 02 111709Z

ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 AGR-05 TAR-01 L-03 H-02 PRS-01 FEAE-00 INT-05

PA-01 /096 W

----- 002500

R 111516Z JUN 75

FM AMEMBASSY PORT AU PRINCE

TO SECSTATE WASHDC 0001

INFO AMEMBASSY SANTO DOMINGO

C O N F I D E N T I A L SECTION 2 OF 2 PORT AU PRINCE 1409

EFFECTS OF STARVATION WILL BE AVERTED BECAUSE OF THE PROMPT ASSISTANCE OF THE VOLUNTARY AGENCIES, THE USG, AND OTHER GOVERNMENTS, HAITI MUST NONETHELESS COPE WITH (A) SHARPLY INCREASED PRICES FOR ALL DOMESTICALLY PRODUCED CROPS THROUGHOUT THE COUNTRY, (B) ADDITIONAL STRESS ON THE ALREADY NEGATIVE FOREIGN SEXCHANGE RESERVES WITH UNUSUAL IMPORTATIONS OF FOOD SUPPLIES (RICE, CORN AND RED BEANS) TO EASE THE PRESSURES ON COMMERCIAL MARKETS AND (C) EXTRA BUDGETARY COSTS FOR THE DISTRIBUTION OF DONATED FOOD SUPPLIES TO STRICKEN AREAS AND FOR THE PROVISION OF SOME ASSISTANCE TO OTHER AREAS OF THE COUNTRY WHICH, ALTHOUGH NOT DISASTER AREAS, HAVE SUFFERED FROM RAIN SHORTAGES AND POOR CROPS.

7. THE ASSISTANCE BEING PROVIDED BY INTERNATIONAL LENDING AGENCIES, BY THE UN AND BY OTHER COUNTRIES, ALTHOUGH SUBSTANTIAL FOR HAITI IN DOLLAR TERMS, WILL HAVE LITTLE POSITIVE EFFECT IN HAITI DURING THE SHORT TERM. ALTHOUGH THE ROADS AND PORT LOANS MAY RESULT IN SOME ADDITIONAL LOCAL EMPLOYMENT, THE GREATER PART OF THE FUNDS WILL GO FOR EQUIPMENT. IN THE MEDIUM TERM, THE LOAN PROJECTS MAY EVEN BE A DETRIMENT TO THE GOH SINCE THE POSSIBILITY EXISTS THAT THE OVERRUNS ON COSTS, PARTICULARLY ON PROJECTS FINANCED

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PORT A 01409 02 OF 02 111709Z

BY THE IDB, WILL BE CHARGED TO THE GOH, THUS PROVIDING THE GOVERNMENT WITH THE DISMAL PROSPECT OF HAVING TO FURNISH PERHAPS AN ADDITIONAL \$6 MILLION OR MORE IN THE NEXT TWO OR THREE YEARS TO KEEP THE ROAD PROJECTS GOING (SEE PAUP AIDAC 1296). THIS IN TURN WILL SHARPLY REDUCE FUNDS AVAILABLE FOR INVESTMENT IN OTHER KEY AREAS, SUCH AS AGRICULTURE. ALTHOUGH NEW PROJECTS FOR THE AGRICULTURAL SECTOR ARE BEING DISCUSSED WITH THE IDB, THE IBRD, USAID, AND OTHER COUNTRIES, TIME BETWEEN SIGNING OF ANY

AGREEMENT AND PAY-OFF TO THE INDIVIDUAL FARMERS IS NECESSARILY SEVERAL YEARS.

8. THE HAITIAN GOVERNMENT IS APPARENTLY NOW BEGINNING TO REALIZE THE SERIOUSNESS OF THE ECONOMIC SITUATION, MORE ACUTELY THAN IT HAS BEEN OBLIGED TO DO SO FOR AT LEAST SEVERAL YEARS. HOWEVER, ITS RESOURCES ARE SO SMALL AND ITS OPTIONS SO LIMITED THAT THE GOH IS NOT LIKELY TO COME UP WITH ANYTHING MORE THAN SHORT-TERM PALLIATIVES. THE GOH DID APPLY TO THE U.S. AND OTHER COUNTRIES FOR FOOD AID, ONCE THE SERIOUSNESS OF THE DROUGHT SITUATION WAS BELATEDLY RECOGNIZED. SOME IMPORTS OF FOOD ARE BEING ADMITTED DUTY FREE TO ALLEVIATE INFLATIONARY PRESSURES. THE PRESIDENT, IN A LENGTHY STRATEGY MEETING LAST WEEK WITH THE SECRETARIES OF COMMERCE, AGRICULTURE, AND FINANCE AND THE DIRECTOR OF THE NATIONAL BANK, HAS ORDERED THAT WORK BE STARTED AS SOON AS POSSIBLE ON THE REPAIR OF SMALL IRRIGATION PROJECTS THROUGHOUT THE COUNTRY. IT IS NOT CLEAR WHAT OTHER WORK SUCH ACTION MAY DISPLACE. THE HAITIANS ARE ALSO PRESSING THE IDB STRONGLY FOR A QUICK RESPONSE ON THE ARTIBONITE VALLEY IRRIGATION PROJECT. HOWEVER, AS THE DEPTH OF THE PROBLEMS BECOMES MORE APPARENT, IT SEEMS LIKELY THAT THE GOH WILL APPROACH THE U.S. FOR ADDITIONAL ASSISTANCE. THE GOH WILL PROBABLY HAVE THE SAVOIR-FAIRE TO KEY SUCH REQUESTS TO THE NEEDS OF HAITI'S AGRICULTURAL SECTOR, BUT THE BACKGROUND JUSTIFICATIONS WILL BE MORE IMPRESSIVE AS REGARDS THE COUNTRY'S NEEDS THAN THEY WILL BE WITH RESPECT TO THE RECORD OF SELF-HELP PERFORMANCE BY HAITIAN AUTHORITIES. ISHAM

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INFLATION, ECONOMIC REPORTS, FOREIGN ASSISTANCE, ECONOMIC DEPRESSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975PORTA01409
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750203-1053
From: PORT AU PRINCE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750661/aaaacdghg.tel
Line Count: 251
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 SEP 2003 by CunninFX>; APPROVED <12 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: HAITIAN ECONOMIC PROSPECT DETERIORATE
TAGS: ECON, EAID, HA, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006